

Message Text

LIMITED OFFICIAL USE

PAGE 01 TOKYO 12375 01 OF 02 070904Z
ACTION COM-04

INFO OCT-01 EA-10 IO-13 ISO-00 STR-07 EB-08 CIAE-00
INR-10 NSAE-00 TRSE-00 OMB-01 SP-02 /056 W
-----041942 071021Z /12
R 070850Z JUL 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 9419
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 01 OF 02 TOKYO 12375

USMTN

E.O. 11652: NA
TAGS: BEXP, MTN, JA
SUBJECT: TRADE FACILITATION COMMITTEE: NTT'S PROCUREMENT
POLICY

REF: (A) STATE 154923, (B) TOKYO 11081, (C) TOKYO 5273,
(D) TOKYO 5932

1. SUMMARY: IN RECENT CONVERSATION WITH EMBASSY OFFICER,
NTT OFFICIALS EXPLAINED NTT'S PROCUREMENT POLICY. IN
ORDER TO INSURE QUALITY, CONTINUITY OF SUPPLY, AND
STANDARDIZATION NTT BUYS ONLY FROM DESIGNATED
SUPPLIERS. NTT HAS NO MANUFACTURING ARM LIKE WESTERN
ELECTRIC SO IT MUST WORK WITH SELECTED DOMESTIC MANU-
FACTURERS TO DEVELOP NEW EQUIPMENT AND IN TURN MUST BUY
THE EQUIPMENT FROM THEM. NTT HAS NO PLANS TO ADD NEW
DESIGNATED SUPPLIERS, EITHER FOREIGN OR DOMESTIC, TO ITS
CURRENT LIST. SINCE CHANGES IN NTT PROCUREMENT INVOLVE
DEEPLY ENTRENCHED VESTED INTERESTS AND WILL BE SLOW IN
COMING, EMBASSY IS PUSHING REVISION OF NTT TARIFF AS
SOLUTION TO TFC CASE 6 (GENERAL DATA COMM). END SUMMARY.

2. EMBASSY OFFICER RECENTLY MET WITH NTT OFFICIALS TO
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TOKYO 12375 01 OF 02 070904Z

DISCUSS NTT PROCUREMENT POLICIES. IT WAS EXPLAINED TO
NTT THAT WHATEVER WAS SAID WOULD BE CIRCULATED WITHIN
THE USG AS BEING OFFICIAL NTT POLICY AND THE DISCUSSION
PROCEEDED ON THAT BASIS.

3. TENDERS: NTT'S BASIC POLICY IS TO USE OPEN
TENDERS FOR PROCUREMENT OF EQUIPMENT. THEORETICALLY

TENDERS CAN BE SUBMITTED BY ANY COMPANY, FOREIGN OR DOMESTIC BUT, AS AN "EXCEPTION" TO THIS GENERAL RULE NTT NEGOTIATES PURCHASES OF EQUIPMENT FROM SPECIFIC SUPPLIERS. IN ACTUAL PRACTICE, HOWEVER, 96 PERCENT OF NTT PROCUREMENT IS DONE ON A NEGOTIATED BASIS AND TENDERS FOR THE REMAINING 4 PERCENT ARE ACCEPTED ONLY FROM DESIGNATED SUPPLIERS. ALL PROCUREMENT THEREFORE IS "EXCEPTIONAL" AND THERE IS SUBSTANTIALLY NO OPEN TENDERING FOR ANY OF NTT'S PURCHASES. NTT DEFENDS THIS PRACTICE ON THE GROUNDS IT IS NECESSARY TO INSURE THAT EQUIPMENT USED IN THE NTT SYSTEMS IS COMPATIBLE WITH THE EXISTING NETWORK AND MEETS NTT'S HIGH QUALITY STANDARDS. IT IS IMPOSSIBLE TO HAVE A HETEROGENEOUS MIX OF EQUIPMENT IN THE SYSTEM SO NTT MUST RESTRICT PURCHASES TO SPECIFIC SUPPLIERS.

4. JOINT DEVELOPMENT: NTT HAS NO MANUFACTURING ARM AND THEREFORE MUST WORK WITH MANUFACTURERS TO DEVELOP NEW EQUIPMENT. SINCE NEW EQUIPMENT IS DEVELOPED WITH THE COOPERATION OF A SPECIFIC MANUFACTURER NTT MUST BUY THE EQUIPMENT ONLY FROM THAT MANUFACTURER TO INSURE THAT THE MANUFACTURER WILL RECOUP ITS INVESTMENT IN R AND D. SINCE NTT IS COMMITTED TO BUY EQUIPMENT FROM A CERTAIN MANUFACTURER AS A QUID PRO QUO FOR ITS COOPERATION IN DEVELOPMENT, NTT CANNOT BUY SIMILAR EQUIPMENT FROM OTHER SOURCES. NTT CARRIES OUT RESEARCH ON BASIC TECHNOLOGY LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 TOKYO 12375 01 OF 02 070904Z

IN ITS LABORATORY USUALLY WITH THE COOPERATION OF A SPECIFIC MANUFACTURER. AS DEVELOPMENTS ARE JOINTLY PATENTED, COOPERATING MANUFACTURERS HAVE PROPRIETARY RIGHTS IN THE EQUIPMENT AND TECHNOLOGY.

5. QUALITY CONTROL AND DESIGNATED SUPPLIERS: NTT MUST PROTECT THE INTEGRITY OF ITS SYSTEM BY INSURING THAT ALL EQUIPMENT USED MEETS ITS RIGID QUALITY STANDARDS. IT INSURES THIS QUALITY BY SELECTING ONLY EQUIPMENT MADE TO NTT SPECIFICATIONS BY COMPANIES KNOWN TO HAVE HIGH TECHNICAL AND MANUFACTURING STANDARDS. NTT INSPECTS PLANTS TO INSURE THAT MANUFACTURING IS BEING DONE TO STANDARDS AND TO INSURE PRODUCT QUALITY. NTT SAYS IT WOULD BE VERY DIFFICULT FOR IT TO MONITOR MANUFACTURING IN FOREIGN COUNTRIES SO IT BUYS ONLY FROM DOMESTIC MANUFACTURERS. NTT WILL DESIGNATE AS SUPPLIERS ONLY THOSE COMPANIES IT KNOWS CAN MEET ITS STANDARDS AND WILL BUY ONLY FROM THESE COMPANIES. THERE ARE MANY JAPANESE COMMUNICATIONS EQUIPMENT MAKERS WHICH ARE NOT DESIGNATED NTT SUPPLIERS, AND NO FOREIGN COMPANIES ARE ON THE LIST. THERE ARE NO FORMAL PROCEDURES FOR APPLYING TO BECOME A DESIGNATED SUPPLIER. BECAUSE OF

THE CURRENT BUSINESS DOWNTURN AND SLOW PROSPECTS FOR NTT GROWTH, NTT HAS NO PLANS TO ADD ANY COMPANIES, FOREIGN OR DOMESTIC, TO THE PRESENT LIST.

6. SPECIFICATIONS AND STANDARDS: NTT AS A MATTER OF POLICY DOES NOT MAKE SPECIFICATIONS FOR EQUIPMENT IT PURCHASES AVAILABLE TO NON-DESIGNATED SUPPLIERS. IT FEELS THAT THE SPECIFICATIONS ARE PROPRIETARY INFORMATION SINCE THEY OFTEN CONTAIN KNOWHOW DEVELOPED WITH DESIGNATED MANUFACTURERS AND CAN ONLY BE MADE AVAILABLE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 TOKYO 12375 02 OF 02 070910Z
ACTION COM-04

INFO OCT-01 EA-10 IO-13 ISO-00 STR-07 EB-08 CIAE-00
INR-10 NSAE-00 TRSE-00 OMB-01 SP-02 /056 W
-----042006 071020Z /21

R 070850Z JUL 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 9420
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 02 OF 02 TOKYO 12375

TO THOSE MANUFACTURERS. NON-DESIGNATED MANUFACTURERS CAN SUBMIT PRODUCTS FOR TESTING AND NTT WILL SAY IF THEY MEET NTT'S STANDARDS, BUT WILL NOT SAY WHAT THE STANDARDS ARE. SPECIFICATIONS GENERALLY ARE DESIGN RATHER THAN PERFORMANCE BASED.

7. NTT AND ITS SUPPLIERS: ONE OF NTT'S MAIN FUNCTIONS OVER THE LAST 100 YEARS HAS BEEN TO DEVELOP THE TELE-COMMUNICATIONS INDUSTRY IN JAPAN AND IT IS RESPONSIBLE FOR THE WELFARE OF ITS DESIGNATED SUPPLIERS. IT FEELS IT MUST SUPPORT THESE SUPPLIERS TO ASSURE ITS SUPPLY OF EQUIPMENT AND TO MAINTAIN CONSISTENT QUALITY. IT IS VERY RELUCTANT TO PURCHASE FROM FOREIGN SUPPLIERS WHOM IT FEELS WILL NOT STAND BEHIND THEIR PRODUCTS OR GUARANTEE THE SUPPLY OF ESSENTIAL COMPONENTS TO NTT OVER A NUMBER OF YEARS. IT POINTED OUT THAT THIS SAME POLICY OF FOSTERING DOMESTIC INDUSTRY TO ASSURE SUPPLY AND QUALITY WAS FOLLOWED BY TELEPHONE COMPANIES IN MOST COUNTRIES OF THE WORLD INCLUDING THE U.S.

8. COMMENT: NTT IS A SEMI-GOVERNMENT ORGANIZATION, AND THEREFORE NOT LEGALLY BOUND BY PROCUREMENT REGULATIONS FOR GOJ MINISTRIES AND AGENCIES. (SEE TOKYO 5273 PARA 6-8 AND REF D.) NTT IS ADMINISTERED BY THE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TOKYO 12375 02 OF 02 070910Z

MINISTRY OF POST AND TELECOMMUNICATIONS (MPT) WHICH WAS CHARGED WITH SUGGESTING TO NTT THAT IT FOLLOW THE JANUARY 13 CABINET ORDER AND MR. AKIKUSA'S CALL ON THE PRIME MINISTER IS PROBABLY A REACTION TO MPT'S SUGGESTION. ENTRENCHED INTERESTS WITHIN NTT WILL MAKE IMPLEMENTATION OF THE SUGGESTION VERY DIFFICULT, HOWEVER, AND NTT IS NOT LEGALLY OBLIGATED TO DO SO.

9. THE COMMENTS IN MR. HANAOKA'S LETTER OF MARCH 14 ARE NOT NECESSARILY INCONSISTENT WITH NTT'S CURRENT PROCUREMENT PRACTICE. AS STATED ABOVE, NTT DOES HAVE A STATED POLICY OF OPEN TENDER PROCUREMENT EVEN THOUGH IT IS NEVER USED FOR THE REASONS GIVEN. THE "CATCH 22" IS THE LAST SENTENCE OF MR. HANAOKA'S LETTER. "...PURCHASE OF MODEMS WILL CONFORM TO THE FULFILLMENT OF VARIOUS NECESSARY CONDITIONS REGARDLESS OF THE MODEMS ORIGIN." NTT FEELS THAT ONLY THE PRODUCTS OF ITS DESIGNATED SUPPLIERS MEET THE "NECESSARY CONDITIONS" AND SO IT WILL NOT PURCHASE PRODUCTS OFFERED BY NON-DESIGNATED SUPPLIERS, EITHER FOREIGN OR JAPANESE. ITS PROCUREMENT PRACTICE IS, THEREFORE, CONSISTENT WITH THIS STATEMENT MADE TO MR. HANAOKA.

10. BECAUSE OF THE LONG STANDING RELATIONSHIPS BETWEEN NTT AND ITS SUPPLIERS IT WILL BE VERY DIFFICULT FOR NTT TO MAKE ANY CHANGES IN ITS PROCUREMENT PRACTICES IN THE NEAR FUTURE. BECAUSE OF THESE DEEPLY ENTRENCHED VESTED INTERESTS, THE EMBASSY FEELS THE MOST LIKELY SOLUTION TO THE MODEM PROBLEM IS A CHANGE IN NTT'S TARIFFS AND IS WORKING ALONG THOSE LINES (REFTEL B). NTM EFFORTS ON GOVERNMENT PROCUREMENT (I.E., WIDENING THE APPLICABILITY OF OPEN PROCUREMENT PRACTICES TO GOVERNMENT CORPORATIONS AND OTHER ENTITIES) AND TECHNICAL LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 TOKYO 12375 02 OF 02 070910Z

BARRIERS CODE MAY OFFER SOME HOPE, BUT WE DOUBT THAT NTT WILL CHANGE ITS WAYS VERY SOON.

MANSFIELD

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE, COMMITTEES
Control Number: n/a
Copy: SINGLE
Draft Date: 07 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978TOKYO12375
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780278-1229
Format: TEL
From: TOKYO USMTN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780783/aaaacsiu.tel
Line Count: 223
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 60436479-c288-dd11-92da-001cc4696bcc
Office: ACTION COM
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 STATE 154923, 78 TOKYO 11081, 78 TOKYO 5273, 78 TOKYO 5932
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 04 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2081131
Secure: OPEN
Status: NATIVE
Subject: TRADE FACILITATION COMMITTEE: NTT'S PROCUREMENT POLICY
TAGS: BEXP, ETRD, JA, US, MTN
To: STATE GENEVA
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/60436479-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014